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Message Text

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21
ACTION COME-00

INFO OCT-01 EUR-12 EA-07 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 /098 W
---------- 031195
R 111518Z FEB 76
FM AMEMBASSY WARSAW
TO SECSTATE WASHDC 9760
INFO AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY MOSCOW
USLO PEKING
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMCONSUL KRAKOW
AMCONSUL POZNAN

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E.O. 11652: N/A
TAGS: EEWT, XH, PL
SUBJECT: EAST-WEST FOREIGN TRADE BOARD STUDY:
COMPENSATION ARRANGEMENTS IN EAST-WEST TRADE

REF STATE 12648

1. WE FIND THE OUTLINE IN REF FOR THE EAST-WEST FOREIGN TRADE BOARD STUDY A COMPLETE AND USEFUL FRAMEWORK FOR ANALYSIS, AND WE LOOK FORWARD TO READING THE FINAL PRODUCT.

2. ALTHOUGH COMPENSATION ARRANGEMENTS DO NOT ACCOUNT FOR A SUBSTANTIAL SHARE OF POLAND'S TRADE WITH ANY OF ITS MAJOR WESTERN TRADING PARTNERS, COMPENSATION HAS FIGURED
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PROMINENTLY IN SEVERAL LARGE CONTRACTS, PARTICULARLY IN

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THE AUTOMOTIVE AND CONSTRUCTION-EQUIPMENT INDUSTRIES. THE AGREEMENTS REACHED WITH MASSEY-FERGUSON/PERKINS (AGRICULTURAL-TRACTOR AND DIESEL-ENGINE PRODUCTION) AND STEYR-DAIMLER-PUCH (EAVY-TRUCK ENGINES), AS WELL AS THE NEGOTIATIONS UNDER WAY ON THE GM LIGH-VAN PROJECT, ARE BASED ON PAYMENT IN RESULTANT PRODUCT. IDEALLY, THE PROJECTS WILL BE SELF-FINANCING AND WILL PROVIDE THE POLES WITH AT LEAST INDIRECT ACCESS TO HARD-CURRENCY MARKETS. EACH OF THE PROJECTS INVOLVES SUBSTANTIAL POLISH INVESTMENT (A PROBABLE MINIMUM OF $400 MILLION PER CONTRACT), WITH NO EQUITY PARTICIPATION BY FOREIGN PARTNERS.

3. THE POLES HAVE CONCLUDED SIMILAR LONG-TERM COOPERATION AGREEMENTS, WITH FAR LOWER INITIAL INVESTMENT COSTS, WITH INTERNATIONAL HARVESTER, CLARK, KOEHRING, AND SEVERAL WEST EUROPEAN FIRMS. THESE CONTRACTS GENERALLY INVOLVE FOREIGN SUPPLIES OF TECHNOLOGY AND PARTS WHICH ARE REPAID THROUGH POLISH DELIVERIES OF COMPONENTS OR COMPLETE PRODUCTS. TYPICALLY, THE PERCENTAGE OF PARTS FURNISHED BY THE FOREIGN PARTNER DECREASES OVER THE LIFE OF THE AGREEMENT, ALTHOUGH IT SELDOM FALLS BELOW 50 PERCENT OF THE TOTAL VALUE OF PARTS REQUIRED FOR EACH UNIT.

4. LONG-TERM (10-15 YEAR) COOPERATION AGREEMENTS, MUCH FAVORED BY THE POLES, CAN OFFER CONSIDERABLE BENEFITS TO BOTH PARTNERS. POLAND GAINS AN IMPORTANT LINK TO WESTERN MARKETS AND TO DEVELOPMENTS IN TECHNOLOGY WHILE MINIMIZING ITS FOREIGN-EXCHANGE EXPENDITURES. THE FOREIGN FIRM ADDS TO ITS PRODUCTION CAPACITY WITHOUT INCURRING INVESTMENT COSTS. NONE OF THE EXISTING AGREEMENTS HAS BEEN OPER-ATIVE LONG ENOUGH TO ALLOW A DEFINITIVE JUDGEMENT ABOUT THE SIGNIFICANCE OF THIS FORM OF COMPENSATION ARRANGEMENT FOR POLISH TRADE.

5. THE POLES HAVE NOT UTILIZED TRADITIONAL COMPENSATION ARRANGEMENTS FOR THE DEVELOPMENT OF THEIR NATURAL RE-SOURCES. THEY HAVE BORROWED SUBSTANTIAL SUMS AGAINST FUTURE DELIVERIES OF BOTH COPPER AND COAL, BUT FOREIGN FIRMS HAVE NOT BEEN INVOLVED IN THE EXTRACTION OF THESE LIMITED OFFICIAL USE

MATERIALS, WE BELIEVE THE LOANS, FROM PRIVATE BANKS IN THE CASE OF COPPER AND WESTERN GOVERNMENTS IN THE CASE OF COAL, ARE PRIMARILY INTENDED FOR USE AS GENERAL-PUR-POSE FINANCIAL CREDITS. THE POLES PLAN TO ACCELERATE THEIR PRODUCTION OF MINING EQUIPMENT DURING THE NEXT FIVE YEARS, BUT WE DOUBT THAT SIGNIFICANT AMOUNTS OF FOREIGN EXHCANGE WILL BE REQUIRED FOR THIS PURPOSE.

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6. PAYMENTS IN BOTH RESULTANT PRODUCTS OR SERVIES OR
IN OTHER PRODUCTS OR SERVICES (REF) ARE
FREQUENTLY PROPOSED BY POLISH FOREIGN-TRADE ORGANIZATIONS
DURING CONTRACT NEGOTIATIONS. ALTHOUGH A FIRM WHICH
REFUSES TO CONSIDER ITSELF AT A COMPETITIVE DISADVANTAGE,
MOST CONTRACTS ARE ULTIMATELY CONCLUDED WITHOUT AN OFFSET
REQUIREMENT. WHEN AGREEMENT HAS BEEN REACHED ON SOME
FORM OF NON-FINANCIAL COMPENSATION, THE BUY-BACK HAS
NEARLY ALWAYS INVOLVED PRODUCT FROM THE PROJECT UNDER
NEGOTIATION. SOME US FIRMS HAVE MADE SERIOUS EFFORTS
TO IDENTIFY OTHER PRODUCTSTHAT WOULD BE WOULD BE ACCEPTABLE AS
OFFSET, BUT HAVE OFTEN FOUND THAT ITEMS OF INTEREST ARE
NOT AVAILABLE UB SUFFICIENT QUANTITY OR THAT THEIR PRICES
ARE NOT COMPETITIVE.

7. OFFSET AGREEMENTS MAY BE FURTHER COMPLICATED BY NEW
PROCEDURES ADOPTED JANUARY 1, 1976, WHICH ASSIGN EACH OF
THE INDUSTRIAL MINISTRIES A FOREIGN-EXCHANGE BALANCE
(POSITIVE OR NEGATIVE) TO BE ACHIEVED BY YEAR-END.
FOREIGN-EXCHANGE ACCOUNTS WILL BE PERIODICALLY REVIEWED,
AND, WE ARE TOLD, MINISTRIES THAT APPEAR TO BE INCURRING
EXCESSIVE HARD-CURRENCY COSTS WILL BE DENIED IMPORT
LICENSES. THE NEW REGULATIONS WILL MAKE THE NEGOTIA-
TION OF CONTRACTS CALLING FOR COMPENSATION IN PRODUCT
OR SERVICES OUTSIDE THE PURVIEW OF THE IMPORTING MINISTRY
EVEN MORE DIFFICULT THAN AT PRESENT. NEVERTHELESS,
BOEING AND MCDONNELL DOUGLAS ARE STILL PLANNING TO OFFSET
THE POSSIBLE SALE OF THEIR INTERMEDIATE-RANGE JET
AIRCRAFT PRIMARILY BY PURCHASES OF PRODUCTS AND
SERVIES UNRELATED TO AVIATION. THEY HAVE NOT EXPER-
IENCED ANY DIFFICULTIES AS A RESULT OF THE NEW MEASURES.

8. POLAND'S RISING FOREIGN-TRADE DEFICIT MAY BRING ABOUT
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A TOUGHTER APPROACH TO COMPENSATION. THERE ARE SIGNS
THAT THE PRINCIPLE OF "SELF-LIQUIDATING INVESTMENT",
WHICH THEORETICALLY REQUIRES THAT EACH PROJECT BE
RESPONSIBLE FOR THE REPAYMENT OF ITS OWN FOREIGN-
EXCHANGE COSTS, MAY BE MORE RIGOROUSLY ENFORCED.

9. EQUITY PARTICIPATION BY FOREIGN FIRMS IN POLISH
INVESTMENT PROJECTS IS NOT FEASIBLE AT PRESENT
TIME. THE POLES REVIEWED THEIR REGULATIONS ON THIS
SUBJECT IN 1974, APPARENTLY WITH THE INTENTIONOF
ALLOWING THE CREATION OF JOINT VENTURES, BUT NEW RULES
HAVE NEVER BEEN PUBLISHED. WE ARE TOLD THAT CURRENT
LAW DOES NOT PROHIBIT EQUITY PARTICIPATION BY FOREIGN
COMPANIES, AND US FIRMS HAVE FROM TIME TO TIME SUB-
MITTED JOINT-VENTURE PROPOSALS, BUT NONE HAS BEEN

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ACCEPTE, WE DO NOT EXPECT A CHANGE IN THIS SITUATION,
BUT IT IS NOT CLEAR THAT THE DE FACTO BAN ON EQUITY
PARTICIPATION HAS SIGNIFICANTLY LIMITED THE DEVELOPMENT
OF POLAND'S TRADE WITH THE WEST. ON THE CONTRARY, SOME
US FIRMS, LACKING THE CAPITAL TO EXPAND THEIR OWN PLANTS,
HAVE INCREASED THEIR PRODUCTION CAPACITY THROUGH
COOPERATION AGREEMENTS WITH THE POLES.
DAVIES

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